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DE RUEHLB #1238/01 3221534
ZNY CCCCC ZZH
P 181534Z NOV 09
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC PRIORITY 6079
INFO RUEHKK/ARAB ISRAELI COLLECTIVE
RUCNDT/USMISSION USUN NEW YORK 4231
RHMCSUU/CDR USCENCOM MACDILL AFB FL
RHEHAAA/NSC WASHDC
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 001238

SIPDIS

E.O. 12958: DECL: 11/16/2019
TAGS: [PGOV](#) [SOCI](#) [KISL](#) [KCOR](#) [KDEM](#) [PTER](#) [LE](#)
SUBJECT: THE "LEBANONIZATION" OF HIZBALLAH

REF: BEIRUT 996

Classified By: CDA, a.i. Thomas F. Daughton for reasons 1.4 (b) and (d).

11. (C) SUMMARY: Hizballah, generally regarded as the "cleanest" of Lebanon's political parties, has been forced to defend itself in the aftermath of the financial collapse of Shia tycoon Salah Ezzedine, most of whose investors came from Hizballah-dominated communities. The Ezzedine scandal was a wake-up call for the organization and in particular for its leader, Secretary General Hassan Nasrallah, who has been physically cut off from his popular base for years due to Israeli threats. He responded by berating his inner circle for their moral laxness and instituted a review of the mid-level political leadership that should conclude by year's end, according to academics and journalists with sources close to Hizballah. Independent Shia politicians and political activists also view the scandal as a significant event that publicly exposed the gradual corruption within the organization that has been evident since 2006. Hizballah's swift moves to contain the scandal will likely prevent any major damage to the organization, but as it continues its integration further into the Lebanese political system, signs of this "Lebanonization" of the party will likely continue. End Summary.

EZZEDDINE SCANDAL BROKE THE "TABOO"

12. (SBU) The magnitude of the collapse of Shia tycoon Salah Ezzedine's pyramid scheme and his subsequent declaration of bankruptcy forced Hizballah to comment publicly on the scandal and the organization's involvement with him (reftel). Ezzedine is believed to have had extensive financial ties to Hizballah's leadership and is the former CEO of the Hizballah-affiliated Dar al-Hadi publishing house. Despite claims by Hassan Nasrallah and others that Ezzedine was not affiliated with Hizballah, the majority of his investors were Lebanese Shia, particularly expatriates, who are believed to be favorably disposed to Hizballah. Reports that Hizballah arrested Ezzedine and confiscated assets from him before turning him over to the police also muddied the waters of public opinion. Immediately following the initial news accounts of the scandal, Nasrallah convened a series of town hall meetings (via video link) to assuage the concerns of supporters in Beirut's southern suburbs, the Bekaa Valley, and the south and attempted to rebuild damaged trust. Hizballah MPs and officials -- some of whom filed legal cases against Ezzedine for personal losses -- defended the organization and declared Hizballah was also a "victim" of Ezzedine's improprieties.

13. (C) According to independent Shia MP Yassine Jaber, the Ezzedine scandal is not the first evidence of the corruption of Hizballah. It was, however, the first time that a groundswell of anger and resentment from the general public

provoked a response from the organization's leadership. Lokman Slim, a Shia political and social activist, characterized the fallout from the Ezzedine scandal as "breaking the taboo" against questioning Hizballah and its activities within the larger Shia community. As a result, he said, he was hopeful that over time individuals would become more "daring" in challenging Hizballah's dominant role in many communities.

BACK TO BASICS: HIZBALLAH
UNDERGOES "INTERNAL REVIEW"

14. (C) Hizballah has activated an "internal review" process to tighten management controls and purge corruption at all levels of the organization, Beirut-based American journalist Mitch Prothero recently told poloffs. The review is anticipated to last through the end of the calendar year, and the resulting management changes (likely invisible to outsiders) are expected to shorten the reporting chain between Hizballah officials in the field and the senior leadership, sources explained to Ghassan Schbley, a researcher from RAND Corporation. This reshuffle was reportedly prompted by news of Ezzedine's investments on behalf of Hizballah officials, including new ministers Mohammad Fneish and Hussein Haj Hassan. During a private iftar with Hizballah's leadership in late September, according to Jaber, Nasrallah accused the "resistance movement" of losing its values and berated his senior aides, repeatedly asking, "Who have we become?" Jaber added that since 2006, the mid-level leadership of the party and their family members have taken to "driving sports-utility

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vehicles, wearing silk dresses, and ordering fast food for delivery," all of which are counter to Hizballah's claims of propriety and working for the betterment of the Shia community through its social service network.

HIZBALLAH STILL PERCEIVED
AS "BETTER THAN THE REST"

15. (C) Since its inception in the early 1980s, Hizballah has emphasized its Lebanese identity to combat criticism that it is a foreign agent. Academics note, however, that Hizballah has gradually taken on other Lebanese characteristics -- including corruption -- as it has benefited from peace and relative wealth. Schbley relayed that while the military sections of Hizballah continue to be financed by and under the influence of Iran, other sections of the organization are funded independently. Christian MP Samer Saade claimed to poloffs that he learned from Lebanese Armed Forces (LAF) intelligence director General Edmond Fadel that Hizballah had a robust revenue stream derived from a "religious tax" imposed on Shia expatriates in north and sub-Saharan Africa. Those revenues, Saade said, have reduced the organization's financial reliance on Iran and Syria by providing USD 650-800 million per year. The expansion of Hizballah's local membership, its extensive social service network, and inflows of Iranian cash for reconstruction after the 2006 war fostered the creation of "patron-client" relationships, theorized Schbley. This integration of Hizballah as a resource provider in its community, he observed, has made it more like other Lebanese political parties.

16. (C) Despite the damage to its image, Hizballah is still widely perceived to be "better than the rest," especially when compared to its largest Shia rival, Nabih Berri's Amal party, Amal-aligned Jaber noted bitterly. Slim echoed Jaber's assessment that Hizballah successfully contained the scandal's damage, pointing out that other politicians -- especially Shia -- failed to capitalize on the issue. However, Khalil Khalil, a former Lebanese Ambassador to Iran and independent Shia political figure from Tyre, assessed that Hizballah had suffered "tremendous damage to its

posture, sincerity, and proper behavior" thanks to Ezzedine.

17. (C) COMMENT: Hizballah's credibility and "clean" image were clearly besmirched by the Ezzedine scandal, but the organization appears to have taken the crisis as a call to rebuild its value system. It is nonetheless likely that signs of the "Lebanonization" of Hizballah will continue to surface as the party further integrates into the Lebanese political system.

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